



NATIONAL ENDOWMENT FOR THE ARTS

SEMIANNUAL REPORT TO THE CONGRESS

October 1, 2009 – March 31, 2010

Office of Inspector General



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OFFICE OF INSPECTOR GENERAL

NATIONAL ENDOWMENT FOR THE ARTS

April 30, 2010

MEMORANDUM

TO: Rocco Landesman
Chairman

FROM: Tonie Jones
Acting Inspector General

SUBJECT: **Semiannual Report to the Congress: October 1, 2009 – March 31, 2010**

The Inspector General Act of 1978 (Public Law 95-452), as amended, calls for the preparation of semiannual reports to the Congress summarizing the activities of the Office of Inspector General (OIG) for the six-month periods ending each March 31 and September 30. I am pleased to enclose the report for the period from October 1, 2009 to March 31, 2010.

The Inspector General's report is intended to cover audits, inspections, evaluations, investigations and other reviews conducted by the OIG as well as our review of the OMB Circular A-133 audits conducted by independent auditors. The report also indicates the status of management decisions whether to implement or not to implement recommendations made by the OIG. The former President's Council on Integrity and Efficiency developed the reporting formats for Tables I and II to ensure consistent presentation by the Federal agencies. The tables provide only summary totals and do not include a breakdown by auditee.

The Act requires that you transmit this report to the appropriate committees of the Congress within 30 days of receipt, together with any comments you may wish to make. Comments that you might offer should be included in your "Report on Final Action," a management report (prepared by the Office of the Deputy for Management & Budget on your behalf) that is required to be submitted along with the Inspector General's report. We will work closely with your staff to assist in the preparation of the management report. The due date for submission of both reports to the Congress is May 30, 2010; this, too, will be handled by the Office of the Deputy for Management & Budget.

I appreciate the continuing support we have received from the Chairman's Office and your managers throughout the Agency. Working together, I believe we have taken positive steps to improve Agency programs and operations. We look forward to continuing these efforts.

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NATIONAL ENDOWMENT FOR THE ARTS

Founded in 1965, the National Endowment for the Arts (NEA) has offered assistance to a wide range of non-profit organizations and individuals that carry out arts programming as well as to all the state arts agencies. The NEA supports exemplary projects throughout the artistic disciplines. Grants are awarded for specific projects rather than for general operating or seasonal support. Most NEA grants must be matched dollar for dollar with non-federal funds. For FY 2009, the NEA received an appropriation of \$167.5 million from the Omnibus Appropriations Act of 2010. In addition, the NEA received \$50 million in 2009 under the American Recovery and Reinvestment Act of 2009 (Recovery Act). These additional funds do not require matching.

OFFICE OF INSPECTOR GENERAL

The Inspector General Act Amendments of 1988, Public Law 100-504, amended the Inspector General Act of 1978, Public Law 95-452, and required the establishment of independent Offices of Inspector General (OIG) at several designated Federal entities and establishments, including the National Endowment for the Arts. The mission of the OIG is to:

- Conduct and supervise independent and objective audits, inspections and evaluations relating to NEA programs and operations;
- Promote economy, effectiveness, and efficiency within the NEA;
- Prevent and detect fraud, waste, and abuse in NEA programs and operations;
- Review and make recommendations regarding existing and proposed legislation and regulations relating to NEA programs and operations; and
- Keep the NEA Chairman and the Congress fully informed of problems in Agency programs and operations.

On October 14, 2008, the President signed the Inspector General Reform Act of 2008, Public Law 110-409. The 2008 Act amends the previous IG Act of 1978 to enhance the independence of the Inspectors General, to create a Council of the Inspectors General on Integrity and Efficiency, and for other purposes.

This semiannual report summarizes the OIG's major activities, initiatives, and results for the six-month period ending March 31, 2010. During the period the OIG consisted of three auditors. The Agency is now actively recruiting to fill the Inspector General position (at the SES level). There is no investigator on the staff. In order to provide a reactive investigative capability, we have a Memorandum of Understanding with the Inspector General of the General Services Administration (GSA) whereby the GSA's OIG agrees to provide investigative coverage for us on a reimbursable basis as needed. (No investigative coverage from GSA was needed during the recent six-month period.) We also have a Memorandum of Understanding with the National Science Foundation's (NSF) Office of Inspector General that details procedures to be used for providing the OIG with legal services pursuant to the new requirements reflected in the 2008 Act. An NSF OIG staff member has been assigned to provide such services on an as-needed basis.

SUMMARY OF WORK COMPLETED BY THE OIG

During the six-month period ending March 31, 2010, the OIG conducted the following audits, inspections, evaluations, reviews, investigations, and other activities.

Audits/Inspections/Evaluations/Reviews

During the recent semiannual period, the OIG issued six reports. The reports were based on audits/evaluations/reviews performed by OIG personnel. Overall, our reports contained 20 recommendations, 11 of which were related to systems deficiencies at grantee organizations and nine recommendations related to systems deficiencies at the NEA.

Audit Resolution

At the beginning of the six-month period, there were two reports awaiting a management decision to allow or disallow questioned costs totaling \$78,100 and potential refunds totaling \$32,400. At the end of the period, the two reports remained outstanding. Both organizations have submitted documentation to the OIG to support the questioned costs. However, a management decision cannot be made until the review has been completed. (See Table I).

Inspections

The OIG did not conduct any inspections during the recent six-month period.

Investigations

The OIG did not open any new allegation cases during the recent six-month period. The one case opened prior to the start of the period remains open at the end of the period. No criminal investigations were performed during the period.

Indirect Cost Rate Negotiations

Indirect costs are incurred for common or joint objectives, which cannot be readily and specifically identified with a particular project or activity. The costs of operating and maintaining facilities, depreciation or use allowances, and administrative salaries and supplies are typical examples of costs that nonprofit organizations usually consider to be indirect.

Indirect cost rates are negotiated by agreement between a non-Federal organization and a Federal agency (usually the agency that furnishes the preponderance of Federal funding) that acts on behalf of all Federal agencies in approving rates with the organization. During this period, the OIG negotiated three indirect cost rate agreements with NEA grantee organizations.

Review of Legislation, Rules, Regulations and Other Issuances

The OIG is required to review and comment on proposed legislation and regulations for their potential impact on the Agency and its operations. During this reporting period, the OIG provided analyses and written commentaries on Agency and other government publications/reports and regulations.

Technical Assistance

The OIG provided technical assistance to NEA grantees and their independent auditors. Our efforts included, for example, clarifying and interpreting the audit requirements of OMB Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations,"* explaining alternative methods of accounting for indirect costs, and advising some of the first-time and smaller organizations on implementing practical accounting systems and internal controls sufficient to assure compliance with their grant agreements.

The OIG also assisted Agency staff with technical issues related to auditing, accounting, and audit followup.

Website

The OIG maintains an ongoing Internet presence (www.arts.gov/about/OIG/Contents.html) to assist and inform NEA grantees and Agency employees. The site was recently updated to include pages for *Reports; Recovery Act* including a section for *Training and Resources; Reporting Fraud, Waste and Abuse; Career Opportunities; and Other Resources*.

Other Activities

During this period, the OIG took part in the activities of the Council on Inspectors General for Integrity and Efficiency (Council), and allocated resources for responding to information requests from and for the Congress and other agencies. In addition, we have participated in various efforts by the Council and other federal agencies to develop effective oversight strategies for Recovery Act ¹ activities. The OIG has performed various oversight activities of the Agency's Recovery Act program, including evaluating the agency's process for ensuring Recovery Act fund recipients submit accurate, complete, and timely data, as required by Section 1512 of the Recovery Act. The OIG also provided oversight of the Agency's independent auditors as they completed the Agency's annual financial statement audit for the fiscal year ending September 30, 2009.

¹ "American Recovery and Reinvestment Act of 2009," effective February 17, 2009

SECTIONS OF REPORT

The following sections of this report discuss the 12 areas specifically required to be included according to Section 5(a) of the IG Act of 1978, as amended. Table I shows Inspector General issued reports with questioned costs and Table II shows that there were no Inspector General issued reports with recommendations that funds be put to better use.

SECTION 1 – Significant Problems, Abuses and Deficiencies

Audits, evaluations and other reviews conducted by OIG personnel during the current and prior periods have disclosed a few instances of deficient financial management practices in some organizations that received NEA grants. Among these were:

- Reported grant project costs did not agree with the accounting records, e.g., financial status reports were not always prepared directly from the general ledger or subsidiary ledgers or from worksheets reconciled to the accounts;
- Personnel costs charged to grant projects were not supported by adequate documentation, e.g., personnel activity reports were not maintained to support allocations of personnel costs to NEA projects when required;
- The amount allocated to grant projects for common (indirect) costs which benefited all projects and activities of the organization was not supported by adequate documentation; and
- Grantees needed to improve internal controls, such as ensuring proper separation of duties to safeguard resources and including procedures for comparing actual costs with the budget.

SECTION 2 – Recommendations for Corrective Action

To assist grantees in correcting or avoiding the deficiencies identified in Section 1, the OIG utilizes two “*Financial Management Guides*,” one for non-profit organizations and the other for state and local governments. The guides are not offered as complete manuals of procedures; rather, they are intended to provide practical information on what is expected from grantees in terms of fiscal accountability. The guides are available at www.arts.gov/about/OIG/Guidance.html.

The guides discuss accountability standards in the areas of financial management, internal controls, audit, and reporting. The guides also contain sections on unallowable costs and shortcomings to avoid. In addition, the guides include short lists of useful references and some sample documentation forms.

SECTION 3 – Recommendations in Previous Reports on Which Corrective Action Has Not Been Implemented

There were no significant recommendations in previous reports on which corrective action has not been implemented.

SECTION 4 – Matters Referred to Prosecuting Authorities

No matters were referred to prosecuting authorities during this reporting period.

SECTION 5 – Denials of Access to Records

No denials of access to records occurred during this reporting period.

SECTION 6 – Listing of Reports Issued and OIG Hotline Contacts

REPORT NUMBER

TITLE

DATE OF REPORT

Financial Management System & Compliance Evaluation Reports

SCE-10-01	University Music Society, MI	01/28/10
SCE-10-02	Mosaic Youth Theatre of Detroit, MI	03/30/10

Limited Scope Audit Reports

LS-10-01	Family Resources, Inc., FL	10/30/09
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Audit Report

A-10-01	Audit of NEA Financial Statements as of September 30, 2009 and 2008	11/9/09
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Special Review Reports

ARRA-10-01	Evaluation of NEA ARRA Data Quality Process.....	10/29/09
R-10-02	NEA Annual Federal Information Security Management and Privacy Report 2009	01/22/10

TOTAL REPORTS – 6

OIG Hotline Contacts

Telephone Calls.....	4
Email	9
Standard Mail.....	1
Referred by Other Sources.....	0
Fax.....	0

TOTAL CONTACTS – 14

SECTION 7 – Listing of Particularly Significant Reports

There were no particularly significant reports during the reporting period.

SECTION 8 – Statistical Tables Showing Total Number of Audit Reports, Inspection Reports, and Evaluation Reports and the Dollar Value of Questioned Costs

Table I of this report presents the statistical information showing the total number of audit reports, inspection reports, and evaluation reports and the total dollar value of questioned costs.

SECTION 9 – Statistical Tables Showing Total Number of Audit Reports, Inspection Reports, and Evaluation Reports and the Dollar Value of Recommendations that Funds be Put to Better Use by Management

As shown on Table II, there were no audit reports, inspection reports and evaluation reports with recommendations that funds be put to better use by management.

SECTION 10 – Audit Reports, Inspection Reports, and Evaluation Reports Issued Before the Commencement of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period

As shown on Table I, there were two audit reports issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

1. LS-09-02 – Wisconsin Arts Board – Issued 06/15/09

Recommendation

Grantee should provide information to support the questioned costs of \$50,000 claimed under Grant No. 05-5500-7110 and \$8,000 under Grant No. 06-4557-7069. If the documentation submitted is not deemed satisfactory, a refund of up to \$29,000 may be required.

Reason No Management Decision Was Made

Grantee's response included information that it believes supports the questioned costs. The information will be reviewed shortly and a management decision should be made by 9/30/10.

2. LS-09-03 – Virginia Commission for the Arts – Issued 08/12/09

Recommendation

Grantee should provide information to support the questioned costs of \$20,100 claimed under Grant No. 06-4557-7066. If the documentation submitted is not deemed satisfactory, a refund of up to \$3,400 may be required.

Reason No Management Decision Was Made

Grantee's response included information that it believes supports the questioned costs. The information will be reviewed shortly and a management decision should be made by 9/30/10.

**SECTION 11 – Significant Revised
Management Decisions Made During the
Period**

No significant revised management decisions were made during the reporting period.

**SECTION 12 – Significant Management
Decisions With Which the Inspector
General Disagrees**

There were no significant management decisions that the Inspector General disagreed with during the reporting period.

TABLE I

**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS**

	<u>NUMBER</u>	<u>QUESTIONED COSTS</u>	<u>UNSUPPORTED COSTS</u>	<u>POTENTIAL REFUNDS¹</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>2</u>	<u>78,100</u>	<u>(78,100)</u>	<u>32,400</u>
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
Subtotals (A + B)	<u>2</u>	<u>78,100</u>	<u>(78,100)</u>	<u>32,400</u>
C. For which a management decision was made during the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
(i) Dollar value of disallowed costs	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
(ii) Dollar value of costs not disallowed	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>2</u>	<u>78,100</u>	<u>(78,100)</u>	<u>32,400</u>
Reports for which no management decision was made within six months of issuance	<u>2</u>	<u>78,100</u>	<u>(78,100)</u>	<u>32,400</u>

^{1/} The potential refund amount usually will not equal the questioned costs amount because matching requirements must be considered and the grantee may be either under or over matched. In addition, historically, the potential refund generally is reduced significantly as a result of the audit followup process, which includes examination of documentation submitted by the grantee.

TABLE II

**INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management	0	0
- based on proposed management action	0	0
- based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
Reports for which no management decision was made within six months of issuance	0	0

DEFINITIONS OF TERMS USED

The following definitions apply to terms used in reporting audit statistics:

Questioned Cost	A cost that the Office of Inspector General (OIG) questioned because of alleged violation with a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.
Unsupported Cost	A cost which the OIG questioned because the cost was not supported by adequate documentation at the time of the audit.
Disallowed Cost	A questioned cost that management has sustained or agreed should not be charged to the NEA grant or cooperative agreement.
Funds Be Put To Better Use	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
Management Decision	Management's evaluation of the findings and recommendations contained in the audit report and the issuance of management's final decision, including actions to be taken. Interim decisions and actions are not considered final management decisions for the purpose of the tables in this report.
Final Action	The completion of all actions that management has concluded in its management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision was made.

REPORTING WRONGFUL ACTS

Anyone, including Agency employees, who learns about or has reason to suspect the occurrence of any unlawful or improper activity related to NEA operations or programs, should contact the OIG immediately. A complaint/referral may be reported using any of the following methods:

Toll-free OIG Hotline: 1-877-535-7448

Local Calls: 202-682-5479

Fax: 202-682-5649

Email: oig@arts.gov

Website: www.arts.gov/about/oig/fraud.html

You may also visit or write us at the National Endowment for the Arts, Office of Inspector General, Room 601, 1100 Pennsylvania Avenue, NW, Washington, DC 20506.

When contacting the OIG, it will help if you have answers to the following questions:

- Who are the parties involved (names, addresses and phone numbers if possible);
- What is the suspected activity (specific facts of the wrongdoing);
- When and where did the wrongdoing occur;
- How did you learn about the activity (from a third party, actual observation, conclusion drawn from observing or performing different activities, etc.); and
- Where can you be contacted or when will you contact us again.

The OIG will not disclose the identity of a complainant or informant without consent, unless the Inspector General determines that such disclosure is unavoidable during the course of the investigation. You may remain anonymous, if you choose. Federal employees are protected against reprisal for disclosing information to the Inspector General unless such disclosure was knowingly false.

